



External Audit Report

Audit of Cameron County Regional Mobility Authority

TxDOT Compliance Division

Objective and Scope

To determine whether Cameron County Regional Mobility Authority (CCRMA) has implemented necessary internal controls to ensure appropriate TxDOT grant and loan funding management, and to verify whether payments to CCRMA are supported by sufficient documentation and are allowable per applicable agreements.

The scope of this audit included CCRMA's current operations and Billing Statements submitted to TxDOT between October 1, 2016 and September 31, 2018.

Overall Conclusion

Costs reimbursed to CCRMA supported tested projects and were allowable per applicable federal requirements and TxDOT agreements. However, five subcontractor expenditures, totaling \$526, did not meet the TxDOT loan agreement documentation requirements. Additionally, there are opportunities for CCRMA to enhance internal processes related to the review and approval of supporting documentation, as well as its organizational risk assessment and control activity monitoring.

CCRMA's management response and action plans are included in Appendix II beginning on page 8 of the report.

Background

A Regional Mobility Authority is a political subdivision formed by one or more counties or certain cities to finance, acquire, design, construct, operate, maintain, expand or extend transportation projects.

CCRMA was authorized by the Texas Transportation Commission on September 30, 2004 to promote and improve regional mobility within Cameron County. CCRMA serves the residents of Cameron County, as well as the entire Rio Grande Valley (RGV) region and sister cities Matamoros and Reynosa.

The following projects were active during the scope period of the engagement:

- Direct Connect SH550 Pass-Through Toll agreement:
 - CCRMA receives the minimum payment of \$1,385,000 annually.
- South Padre Island 2nd Access Toll Equity Loans:
 - \$5.1 million awarded for predevelopment costs in May 2014. \$1.3 million remains available.
 - \$9.2 million awarded for predevelopment costs in August 2006. Funds were fully-expended prior to the scope of this engagement.
- Outer Parkway Toll Equity Loan
 - \$5 million awarded for predevelopment costs in July 2014. \$4.2 million remains available.
- Gap I Segment of SH550 Toll Equity Grants:

- \$6 million awarded in November 2016 for predevelopment and construction costs is fully expended.
- \$2 million awarded March 2018 for construction costs. \$1.3 million remains available.

Results

Testing of Select Billing Statements and Reimbursed Costs

We tested 22 reimbursed costs, totaling \$4,956,019, on three projects. All costs supported the respective projects and were allowable per award agreements. However, five cost items, totaling \$526, were not in compliance with documentation requirements of the loan agreement between TxDOT and CCRMA. Specifically, four subcontractor travel invoices did not have complete travel information, and a subcontractor rental car receipt was also missing. While the documentation was non-compliant with the agreement requirements, auditors verified the costs were allowable and supported applicable projects.

Recommendation:

CCRMA should ensure billing statements include required supporting documentation from General Engineering Consultants and all subcontractors.

Review of Procurement Policy

CCRMA updated its procurement manual in December 2016 to include the requirements of 23 CFR 172, *Procurement, Management, and Administration of Engineering and Design Build Related Services*. This update was approved by CCRMA's Board of Directors and TxDOT; however, subsequent revisions to the manual in October 2017 were not approved by either party. Per 23 CFR 172.5, *Program Management and Oversight*, "the State Transportation Authority or other recipient shall approve the written policies and procedures, including all revisions to such policies and procedures, of a subrecipient to assess compliance with applicable requirements."

We verified the procedures CCRMA used to contract with three General Engineering Consultants (GEC) in May 2018 complied with 23 CFR 172. We also reviewed four work authorizations issued to the selected GECs between May and September 2018 and determined each was funded with local funds.

Recommendation:

CCRMA should ensure updates and amendments to policies are approved by its Board of Directors and TxDOT, as applicable.

Review of Internal Control Components

CCRMA has not fully developed processes to assess entity risks and ensure internal controls are operating effectively. CCRMA's Accounting Policy and Procedures manual outlines the organization's commitment to implementing COSO's (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control Framework. CCRMA's internal

control system includes elements of the five components of COSO, such as annual ethics training for the Board, Executive Director and Director of Finance; segregation of duties; review and approval of work authorizations; and Board review and approval of monthly reports. However; there are opportunities for CCRMA to enhance its risk assessment and monitoring activities.

CCRMA does not perform a formal entity-wide risk assessment to identify internal and external risks to achieving its mission. Based on discussions with management, CCRMA is able to identify and articulate risks to the operation but does not document its risk exposures or mitigating activities. Management asserted risks are routinely communicated to the Board as well but this could not be verified. Lack of a formalized risk assessment could expose CCRMA to greater risks than anticipated and impact both local and TxDOT funding.

CCRMA has implemented internal controls to minimize internal risks; however, CCRMA does not have internal monitoring controls in place to ensure its controls are operating as intended. Per CCRMA management, CCRMA relies on its external auditor to review and assess controls over financial reporting and compliance. CCRMA has an accounting policy that states management's responsibilities include "periodic evaluation of existing controls to ensure effectiveness and efficiency within its operations." However, CCRMA was unable to provide documentation of this evaluation.

Per the COSO framework, "an effective system of internal control reduces, to an acceptable level, the risk of not achieving an objective relating to operations, reporting or compliance. It requires that each of the five components of internal control is present and functioning and operating together in an integrated manner."

Recommendations

CCRMA should periodically conduct organization-wide risk assessments to identify overall operations and business environment risks, and periodically review and assess internal controls to ensure they are present and functioning as intended.

Financial Analysis

Analysis of CCRMA's FY2017 and FY2018 financial statements, FY2019 approved budget, and future debt payments showed CCRMA is financially stable and demonstrating positive trends. There are risks associated with potential loss of funding for major projects, additional issuances of bonds, and lower revenues or higher expenses than expected. While we did not identify findings, we discussed scenario planning options with CCRMA to assist in mitigation of these risks.

Recommendations have been communicated to TxDOT management and personnel responsible for CCRMA oversight and reimbursement approvals.

Appendix I

Methodology

The methodology used to complete this audit included:

- Gaining an understanding of CCRMA's procedures and operating processes.
- Reviewing the Financial Assistance Agreements between CCRMA and TxDOT and applicable standards including OMB A-87, TAC43- Chapter 27, Subchapter E and referenced Transportation Code and SEC chapters.
- Conducting interviews with CCRMA personnel, including the CFO and accounting assistant
- Conducting interviews with TxDOT Pharr District personnel.
- Reviewing CCRMA's Accounting Policies and Procedures Manual, and Policies and Procedures Governing Procurement of Goods and Services
- Verifying key CCRMA personnel attended TxDOT's Local Government Projects (LGP) training
- Testing whether payments to CCRMA were supported by sufficient documentation and were allowable per applicable grant agreements, federal, and state requirements
- Performing a project timeline analysis for the South Padre 2nd Access project to determine whether progress and expenditures in relation to the project timeline are reasonable.
- Reviewing the award of work authorizations to GECs to ensure the approved procurement policy was followed per 23 CFR 172.
- Performing a financial analysis to determine if CCRMA is self-sufficient and able fulfill current and known future obligations
- Reviewing CCRMA's compliance with COSO's Internal Control Framework Components

Sampling and Testing Methodology

Testing was performed for the following projects:

PROJECT	Phase	Funding	Total Agreement	Amount Paid through FY18*	Remaining
South Padre Island 2nd Access - 2nd Loan	Environmental	Toll Equity Loan	\$5.1 M	\$3,792,285	\$1,307,715
Outer Parkway Toll	Environmental	Toll Equity Loan	\$5 M	\$780,179	\$4,219,821
SH550 -GAP I	Construction	Toll Equity Grant	\$6 M	\$6,738,305	\$1,261,695
			\$2 M		
				\$11,310,769	\$6,789,231

*Through September 30, 2018 –CCRMA's fiscal year end

During the scope period, 26 billing statements, totaling \$8,417,946 were submitted to TxDOT for reimbursement. We judgmentally sampled 13 of 26 (50%) billing statements totaling \$4,956,019 (59%) and tested for amount requested, description of use of funds and supporting documentation.

Tested 22 individual costs (100%) associated with those billing statements for the following requirements:

- Costs were reasonable, necessary and allocable to the project
- Adequate supporting documentation to confirm costs were valid and accurately calculated
- Costs were incurred during the award agreement period
- Costs were authorized and approved by CCRMA and TxDOT as required

Data Reliability

Auditors assessed the reliability of project expenditure data generated from TxDOT's PeopleSoft Financials accounting system by comparing the data to project expenditure data provided by CCRMA and the Pharr District. The data was determined to be reliable for the purposes of this audit.

Project Information

This audit was conducted for CCRMA, TxDOT Administration, and the Chief Audit and Compliance Officer. The audit was included in the fiscal year 2019 Compliance Division External Audit Plan. Audit fieldwork was conducted from October through December 2018

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

Appendix II



IMPROVING MORE THAN JUST ROADS

May 1, 2019

Mr. Patrick McKinney
External Audit & Advisory Services Section Director
Compliance Division
Texas Department of Transportation
125 E. 11th Street
Austin, Texas 78701

RE: Cameron County Regional Mobility Authority
Response to External Audit – TxDOT Compliance Division

Dear Mr. McKinney:

The CCRMA has reviewed the report results from the external audit performed by the TxDOT compliance division for the period of October 1, 2016 through September 31, 2018. The CCRMA agrees with the overall conclusion of the report, in which the costs reimbursed to CCRMA supported tested projects were allowable per applicable federal requirements and TxDOT agreements.

In addition your report provides specific results in which we have prepared a response for your convenience and is attached to my letter.

I appreciate the opportunity to have worked with you and the external audit staff from the TxDOT compliance division.

Sincerely,

Pete Sepulveda, Jr.
Executive Director

attachment: as noted above

Result 1: Testing of Select Billing Statements and Reimbursed Cost

Individual responsible for Improved Action:

Jesus Adrian Rincones, CPA
Chief Financial Officer

Improved Action Planned:

The CCRMA has developed internal reviews to ensure that all supporting documentation from General Engineering Consultants and all subcontractors are compliant with the Federal and State agreements contracted to the CCRMA. A Financial Controller and Project Assistant have been added to the CCRMA team to assist with this improved review process.

Result 2: Review of Procurement Policy

Individual responsible for Improved Action:

Jesus Adrian Rincones, CPA
Chief Financial Officer

Improved Action Planned:

CCRMA will ensure that all updates and amendments to policies are approved by the Board of Directors and clearly documented for public record.

Result 3: Review of Internal Control Components

Individual responsible for Improved Action:

Jesus Adrian Rincones, CPA
Chief Financial Officer

Improved Action Planned:

CCRMA has implemented and will continue to improve its internal control and risk assessments to comply with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework.

Result 4: Financial Analysis

Individual responsible for Improved Action:

Jesus Adrian Rincones, CPA
Chief Financial Officer

Improved Action Planned:

The CCRMA has implemented the necessary controls to consider the financial risks associated with the loss of funding for projects and other ongoing developments. The CCRMA will improve its process by documenting this analysis and expanding its assessment of the various factors to mitigate current and future financial risks.